

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 784
Ways and Means

(Delegate A. Miller, *et al.*)

Budget and Taxation

Income Tax Credit - Emergency Backup Generators

This bill allows a qualified nursing home to claim a refundable credit against the State income tax for the amount of any sales tax paid during the taxable year on the purchase of a backup generator for the nursing home.

The bill applies to taxable years beginning after December 31, 2013, but before January 1, 2019.

Fiscal Summary

State Effect: General fund and special fund revenues decrease by a significant amount from FY 2015 through 2019. The amount of the decrease depends on the number and amount of income tax credits claimed by qualified nursing homes. Under one set of assumptions, the income tax credit may reduce revenues by an additional \$270,300 on an annual basis. General fund expenditures increase by \$79,000 in FY 2015 for one-time tax form changes and computer programming modifications at the Comptroller's Office.

Local Effect: Potential decrease in local highway user revenues in FY 2015 through 2019. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law/Background:

Task Force to Study Tax Benefits for Emergency Preparedness Equipment

Chapter 481 of 2013 established the Task Force to Study Tax Benefits for Emergency Preparedness Equipment to study and make recommendations regarding an income tax credit for purchasing electric generators and a sales tax-free period for emergency preparedness equipment. The task force was required to report its findings and recommendations to the Governor and General Assembly by December 1, 2013.

The task force met during the 2013 interim and issued its report on January 24, 2014. The task force issued the following recommendations:

- After careful consideration of the budget outlook for the State and ensuring that the policy not prove detrimental to other important budget priorities, the General Assembly should consider enacting a refundable tax credit for backup power generators purchased by assisted living facilities with 49 beds or less.
- The tax credit for assisted living facilities should be limited to 50% of the cost of the generator without a cap.
- The length of the period of the tax credit should not exceed five years to allow for adequate participation in the program.
- After careful consideration of the budget outlook for the State and ensuring that the policy not prove detrimental to the other important budget priorities, the General Assembly should consider enacting a tax holiday for emergency preparedness products and supplies with a selling price of \$60 or less for a period of one week prior to the official start of Hurricane Season (June 1). The tax holiday should expire five years from the passage of the legislation.

A copy of the task force report to the Governor and General Assembly can be found at: <http://msa.maryland.gov/megafile/msa/speccol/sc5300/sc5339/000113/018000/018944/unrestricted/20140017e.pdf>

Major Outage Events

Several major power outage events have occurred in the State in recent years. For example, several violent thunderstorms hit the Pepco service territory on July 25, August 5, and August 12, 2010, causing power outages to 297,000, 75,000, and

98,000 customers, respectively. The Public Service Commission (PSC) received many complaints about the outages. On January 26, 2011, a winter storm caused 126,000 peak customer outages in the Baltimore Gas and Electric (BGE) service territory and 190,000 peak customer outages in the Pepco service territory.

On June 29, 2012, a “derecho” storm severely impacted electrical service to a large portion of the State, especially in the BGE and Pepco service territories. High sustained wind speeds with gusts in excess of 65 miles per hour (mph) resulted in downed trees, broken telephone poles, and damaged electric distribution infrastructure. Based on the definition of “major outage event,” most electric companies in the State were required to file a written report on the outage and subsequent repair services. The reports indicate that BGE and Pepco each experienced over 750,000 total customer outages, with maximum concurrent interruptions of over 400,000 customers each – significantly higher than for any other recent major outage event. **Exhibit 1** contains information related to customer outages and service restoration for each electric company that filed a report. Full copies of each of the reports can be found on PSC’s website under Case No. 9298.

Exhibit 1
Summary Statistics – Utility Major Outage Event Reports
June 29, 2012 Derecho Storm

	<u>Total Maryland Customers</u>	<u>Total Customer Outages</u>	<u>Maximum Concurrent Interruptions</u>	<u>Customer Interruption Hours</u>	<u>Average Duration per Customer (Hours)</u>	<u>Duration of Major Outage Event</u>
BGE	1,240,173	762,781	429,841	28,643,177	37.6	8 Days, 15 Hours
Delmarva	194,945	50,476	28,059	436,823	8.7	3 Days, 19 Hours
Pepco	534,601	786,766	410,679	20,465,930	26.0	8 Days, 6 Hours
SMECO	151,800	83,250	56,424	1,203,860	14.5	3 Days, 19 Hours

SMECO: Southern Maryland Electric Cooperative
Source: Major Outage Reports Filed in PSC Case No. 9298

Finally, Hurricane Sandy made landfall near Atlantic City, New Jersey, on October 28, 2012. Much of Maryland experienced sustained wind speeds in excess of 35 mph, with gusts ranging from 55 to 65 mph. Many areas in the State experienced between four and six inches of rain, and some areas on the Eastern Shore experienced double that, while some areas in Western Maryland received approximately two feet of snow. Despite these totals, customer outages were fewer and of shorter duration, on

average, than those related to the June derecho storm. Customer outages in each service territory were approximately:

- 350,000 in BGE;
- 110,600 in Potomac Edison;
- 83,600 in Delmarva;
- 81,400 in Pepco; and
- 35,800 in SMECO.

Additional outage information for each electric company can be found in the major storm reports posted on PSC's website under Case No. 9308.

State Revenues: General fund and special fund revenues will decrease by a significant amount in fiscal 2015 through 2019 as a result of the income tax credit for qualified nursing homes.

The task force report indicates that most assisted living facilities in the State are required to have some form of backup generation for emergency situations. However, there are 1,335 assisted living facilities in the State with 49 or fewer beds that are exempt from this requirement. The task force report states that the cost of a backup generator for these facilities will likely range from \$15,000 to \$30,000 depending on the size of the facility. The amount of revenue loss depends on the number of qualifying nursing homes that purchase a backup generator in a given year and cannot be reliably estimated.

However, *for illustrative purposes only*, if it is assumed that 75% of assisted living facilities with 49 or fewer beds purchase a backup generator over the five-year life of the tax credit, general fund revenues will decrease by approximately \$1.4 million over the five-year period. The estimate assumes an average generator price of \$22,500 and that approximately 200 facilities will purchase a backup generator each year between fiscal 2015 and 2019 and claim the credit against the personal income tax. Under this scenario, the annual revenue loss is estimated to total approximately \$270,300.

To the extent credits are claimed against the corporate income tax, Transportation Trust Fund (TTF) and Higher Education Investment Fund revenues will decrease. Local governments receive a portion of TTF revenues in the form of local highway user revenues for the purpose of constructing and maintaining local roads. Accordingly, local highway user revenues will decrease as a result of any credits claimed against the corporate income tax.

State Expenditures: The Comptroller's Office reports that it will incur a one-time expenditure increase of \$79,000 in fiscal 2015 to add the credit to the personal and

corporate income tax forms. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Local Revenues: Local governments receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. As a result, local highway user revenues may decrease in fiscal 2015 through 2019 from income tax credits being claimed against the corporate income tax.

Additional Information

Prior Introductions: None.

Cross File: SB 732 (Senator Manno) - Budget and Taxation.

Information Source(s): Comptroller's Office, Department of Legislative Services

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